

December 24, 2024

Veritas Finance Limited: Rating reaffirmed for PTCs issued under small business loan and home construction loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Nov-24 Payout (Rs. crore)	Rating Action
Vajra 003 Trust	Series A1 PTC	40.00	NA	17.55	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by a pool of small business loan (SBL) and home construction loan (HCL) receivables originated by Veritas Finance Limited (Veritas/Originator).

The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of high amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower compared to the actual collection level observed in the pool till the November 2024 payout month.

Pool performance summary

Parameter	Veritas 003
Payout month	November 2024
Months post securitisation	12
Pool amortisation (as % of initial pool principal)	41.85%
Series A1 PTC amortisation (as % of initial PTC principal)	56.11%
Last 3 months' average monthly collection efficiency ¹	99.19%
Cumulative collection efficiency ²	99.48%
Cumulative prepayment rate ³	16.10%
Monthly prepayment rate	1.28%
Loss-cum-0+ dpd (% of initial pool principal) ⁴	1.50%
Loss-cum-30+ dpd (% of initial pool principal) ⁵	0.91%
Loss-cum-90+ dpd (% of initial pool principal) ⁶	0.27%
Breakeven collection efficiency ⁷	45.51%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	15.48%
Excess interest spread (EIS; as % of balance pool) ⁸	23.60%
Principal subordination (% of balance pool principal)	31.32%

¹ Average of (Total current and overdue collections for the month as a % of Total billing for the month) for 3 months

² Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)

³ Principal outstanding at the time of prepayment of contracts prepaid till date / Initial pool principal

⁴ Unbilled and overdue principal portion of contracts delinquent for more than 0 days, as a % of Initial pool principal

⁵ Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of Initial pool principal

⁶ Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of Initial pool principal

⁷ (Balance cash flows payable to investor – CC available) / Balance pool cash flows

⁸ (Pool cash flows till PTC maturity month – Cash flows to PTC A1 – Originator's residual share) / Pool principal outstanding

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and principal payout (91.00% of the pool principal billed) to Series A1 PTC. The balance principal (9.00%), after the replenishment of the credit enhancement, is expected to be paid on a monthly basis until the maturity of Series A1 PTC. A part of the residual cash flow from the pool (75%), after meeting the promised and expected payouts, will be used for the prepayment of the Series A1 PTC principal while the balance (25%) would be used for the payment of the equity tranche. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal.

Key rating drivers and their description

Credit strengths

Healthy pool performance – The pool's performance has been strong with a cumulative collection efficiency of ~99% till the November 2024 payout month. This has resulted in low delinquencies in the pool with the 90+ days past due (dpd) and 180+ dpd at 0.27% and 0.18%, respectively. The breakeven collection efficiency has also declined to 46%.

Considerable build-up of credit enhancement – The rating factors in the build-up in the credit enhancement with the cash collateral increasing to ~15% of the balance pool principal from 9% at the time of securitisation. Further, there have been no instances of cash collateral utilisation till date owing to the strong collection performance and the presence of subordination and excess interest spread (EIS) in the transaction.

Contracts backed by self-occupied residential properties – The pool is backed by self-occupied residential properties. This is expected to support the quality of the pool as it has been observed that borrowers tend to prioritise repayments towards such loans even during financial stress.

Adequate servicing capability of the originator – Veritas has adequate processes for servicing the loan accounts in the securitised pool. It has a demonstrated track record of almost a decade of regular collections and recoveries across multiple geographies.

Credit challenges

Significant geographical concentration – The pool has significant geographical concentration with the top 3 states, viz. Tamil Nadu, Andhra Pradesh and Karnataka, comprising ~81% of the balance pool principal amount. The pool's performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.50% with certain variability. The average prepayment rate for the underlying pool is modelled in the range of 7.2% to 27.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Vajra 003 Trust
Originator	Veritas Finance Limited
Servicer	Veritas Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	ICICI Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Superior

The liquidity for the PTC instrument is superior after factoring in the credit enhancement available to meet the promised payout to the investors. The total credit enhancement would be greater than 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The sustained weak collection performance of the underlying pool of contracts, leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (Veritas) could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of Veritas' portfolio till September 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

Veritas Finance Limited (Veritas) is a non-banking financial company (NBFC) incorporated on April 30, 2015 and registered with the Reserve Bank of India (RBI). The company is promoted by Mr. D Arulmany and it lends to borrowers engaged in the micro, small and medium enterprise (MSME) sector with a primary focus on providing inclusive finance to the self-employed borrowers for their businesses. As on September 30, 2024, Veritas had 493 branches across 11 states/Union Territories (UTs), namely Tamil Nadu, West Bengal, Karnataka, Odisha, Andhra Pradesh, Telangana, Bihar, Jharkhand, Chhattisgarh, Madhya Pradesh and Puducherry.

Veritas had a gross loan portfolio of Rs. 6,517 crore as on September 30, 2024 (Rs. 5,724 crore as on March 31, 2024). The company has divided the MSME loan product segment into two broad heads – MSME Rural and MSME Urban, apart from home loans. MSME Rural consists of small business loans (SBLs) and home construction loans (HCLs) while MSME Urban is

focussed on unsecured business loans meant for working capital purposes. The home loan (HL) segment focusses on affordable housing. These products are differentiated on the basis of the purpose of the loan, customer segment, etc.

As on September 30, 2024, on a fully-diluted basis, the promoter (Mr. Arulmany) and his relatives held 9.86% while other shareholders include Norwest Venture Partners X Mauritius (21.90%), Multiples PE and affiliates (16.47%), Kedaara Capital Fund II LLP (15.30%), Lok Capital and affiliates (13.86%), British International Investments Plc. (10.48%), Avendus Future Leaders Fund (2.94%), and Caspian Impact Investment Advisers Private Limited (0.19%). The balance is held by individual shareholders and employees and their relatives.

Key financial indicators

Veritas Finance Limited	FY2023	FY2024	H1 FY2025
	Audited	Audited	Audited
Total income	682.21	1,123.80	724.12
PAT	174.70	245.49	133.11
Assets under management (AUM)	3,533.73	5,723.79	6,517.22
Gross NPA	2.19%	1.79%	1.95%
Net NPA	1.26%	0.85%	0.97%
CRAR	45.00%	41.49%	40.87%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
			Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					Dec 24, 2024	Dec 15, 2023	Nov 30, 2023	-	-
1	Vajra 003 Trust	Series A1 PTC	40.00	17.55	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
INE0S9015015	Vajra 003 Trust	Series A1 PTC	December 20, 2023	9.75%	April 20, 2029	17.55	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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